## Message Text

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INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 IO-13 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00 DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 EPA-01 /174 W

PR 071246Z MAR 78

FM AMEMBASSY ABU DHABI TO SECSTATE WASHDC PRIORITY 7462

INFO AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

USMISSION GENEVA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION USUN NEW YORK

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E.O. 11652: GDS

TAGS: ENRG, EFIN, TC

SUBJECT: UTAYBA SUGGESTS CURRENCY BASKET FOR OIL PRICING

REF: ABU DHABI 461 (NOTAL)

SUMMARY: OIL MINISTER UTAYBA HAS PUBLICLY PROPOSED ADOPTION OF NEW BASIS FOR CALCULATING PRICE OF OIL BASED ON WEIGHTED AVERAGE CURRENCIES OF SEVERAL KEY INDUSTRIALIZED STATES, CURRENCIES OF OPEC COUNTRIES WITH LARGE BALANCE OF PAYMENTS SURPLUSES, AND PRICE OF GOLD. US DOLLAR WOULD CONTINUE TO BE CURRENCY IN WHICH OIL PAYMENTS ARE MADE. END SUMMARY.

- 1. IN AN INTERVIEW WITH LOCAL NEWSPAPER AL WAHDA OF MARCH 6, UAE OIL MINISTER MANA SAID AL UTAYBA HAS PROPOSED THE FORMATION OF A NEW BASKET OF CURRENCIES TO DETERMINE THE BASE PRICE FOR MARKER CRUDE AND THEREBY PROTECT THE PURCHASING POWER OF OIL REVENUES FOR OIL EXPORTING COUNTRIES WHOSE PRODUCTION EXCEEDS THEIR REVENUE REQUIREMENTS. WHILE STATING THAT IT WAS NECESSARY TO KEEP THE DOLLAR AS UNIT OF PAYMENT, UTAYBA SAID "WE MUST SEPARATE BETWEEN STANDARDIZATION OF OIL PRICES AND MAINTENANCE OF THE PURCHASING POWER OF RETURNS FROM OIL".
- 2. ON MARCH 7, I HAD AN OPPORTUNITY TO DISCUSS WITH UTAYBA HIS IDEA OF FOUNDING A NEW BASKET OF CURRENCIES FOR CALCULATING THE PRICE OF MARKER CRUDE. THE IDEA OF A BASKET, OF COURSE, IS NOT NEW AND HAS BEEN DISCUSSED WITHIN OPEC FOR A LONG PERIOD CONFIDENTIAL

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OF TIME. UTAYBA FELT, HOWEVER, THAT GIVEN THE CONTINUED SLIDE OF THE DOLLAR IN RELATION TO CERTAIN OTHER CURRENCIES, HIS PROPOSAL SHOULD BE ENTERTAINED.

3. BASICALLY WHAT UTAYBA HAS PROPOSED IS A COMPOSITE BASKET COMPOSED OF THREE PARTS. THE FIRST PART WOULD BE THE CURRENT VALUE OF CURRENCIES OF MAJOR INDUS-TRIALIZED COUNTRIES. HE HAS SUGGESTED THAT THEY WOULD ACCOUNT FOR 70 PERCENT OF THE WEIGHT WITH US DOLLAR ACCOUNTING FOR 15 PER CENT, THE DEUTCHMARK 12 PER CENT, THE BRITISH POUND 10 PER CENT, SWISS FRANC 10 PER CENT. THE JAPANESE YEN 10 PERCENT. THE CANADIAN DOLLAR 7 PER CENT, AND THE AUSTRALIAN DOLLAR 6 PER CENT. THE SECOND PART WITH A WIGHT OF 20 PER CENT WOULD CONSIST OF THE CURRENT VALUE OF THE SAUDI RIYAL 10 PER CENT. THE KUWAITI DINAR 5 PER CENT. AND THE UAE DIRHAM 5 PER CENT. THE LAST 10 PER CENT WOULD BE CURRENT VALUE OF GOLD IN DOLLARS. UTAYBA SAID HE WAS NOT WEDDED TO THESE PERCENTAGES BUT HAD PROPOSED THEM FOR CONCEPTUAL PURPOSES. CALCULATIONS OF OIL PRICES BASED ON THESE WIGHTED AVERAGES WOULD BE DONE AT SPECIFIED PERIODS WITHIN CERTAIN RANGES

ESTABLISHED FOR EACH ELEMENT TO AVOID RECALCULATION FOR MINOR FLUCTUATIONS.

4. UTAYBA SAID HIS PROPOSAL WAS NOW BEING STUDIED BY UAE FOREIGN MINISTRY AND UAE CURRENCY BOARD SO THAT IT WAS STILL NOT A FORMAL UAE POSITION. HE INDICATED THAT HE WAS NOT SUGGESTING THAT OPEC TAKE ANY PRECIPATE ACTION WHICH COULD HAVE HARMFUL EFFECTS BUT HE THOUGHT HIS PROPOSAL MIGHT IN LONG RUN TURN OUT TO BE A BETTER AND MORE REALISTIC METHOD OF CALCULATING PRICE OF MARKER CRUDE AS CURRENCIES THAT ARE NOW WEAK STRENGTHEN AND CURRENCIES THAT ARE NOW STRONG WEAKEN.

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5. UTAYBA PROMISED TO GIVE ME A COPY OF HIS PROPOSAL WHICH IS IN GREATER DETAIL WITHIN THE NEXT TWO WEEKS AFTER IT HAS BEEN REVIEWED BY OTHER UAE OFFICIALS. UTAYBA ALSO SAID HE DID NOT KNOW IF HIS PROPOSAL WOULD BE DISCUSSED AT A PROPOSED OPEC CONSULTATIVE MEETING END OF MARCH OR EARLY APRIL. HE INDICATED THAT SEVERAL OPEC COUNTRIES (INCLUDING SAUDI ARABIA) WERE COOL TO IDEA OF A CONSULTATIVE MEETING AMONG OPEC MINISTERS AND MEETING THEREFORE MAY NOT TAKE PLACE.

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